

HSBC Russia Manufacturing PMI™

Russian manufacturing output growth remained subdued, despite renewed job creation

Summary

HSBC survey data suggested that the recovery in Russia's manufacturing sector remained lacklustre in October, while inflationary pressures intensified. The headline HSBC Russia Manufacturing PMI™ – a composite index designed to track overall business conditions – posted 51.8, up from 51.2 in September. Any figure greater than 50.0 signals improvement, below 50.0 contraction. However, the rise in the headline figure was driven by higher employment and a greater lengthening of suppliers' delivery times, and masked weaker gains in both output and new orders. The PMI also remained below its long-run trend of 52.1.

Production growth weakened further in October and remained sluggish. Expansion was maintained for the fifteenth successive month, but the rate has slowed continuously since July. The latest rise was the weakest for seven months.

The weaker rise in output reflected subdued growth in new orders. The volume of new work increased overall for the seventh straight month, but at the slowest rate over this period. New export business registered outright contraction for the fourth month running, and at the fastest rate since March.

Although both output and new orders rose more slowly during the month, Russian manufacturers expanded their workforces, on average, for the third time in four months.

A combination of weaker new order growth and recruitment of additional staff helped Russian manufacturers to cut backlogs sharply during October. Moreover, the rate of reduction was the sharpest since April 2009.

Input price inflation accelerated for the third month running in October, reaching a twenty-seven month high. Cotton prices were reported to have risen, linked to the poor harvest, while metals were also cited as a source of inflationary pressure. Input price inflation in October was greater than the long-run survey trend.

Rising cost pressures led to a marked increase in prices charged by Russian manufacturers for their goods in October. Output prices have risen on average every month since July 2009 and, over the past three months, the rates of inflation have been faster than in any other period since July 2008.

Comment

Commenting on the Russia Manufacturing PMI survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"The reported improvement in headline HSBC Russia Manufacturing PMI index is somewhat encouraging, yet it is too early to say that the growth deceleration trend has come to an end. Different PMI components show the opposite dynamics. On the one side, companies keep increasing output, albeit at a slower rate, hiring additional labor force, and increasing input purchases. On the other side, new demand growth lags behind output growth, with even faster than before outright fall of export orders. The reported transport capacity and other suppliers' delivery constraints add to the negative news. On balance, growth in manufacturing seems having further potential to ease in the very short-term.

Despite the easing growth momentum in manufacturing, price pressures have intensified and reached the pre-crisis local peaks. A combination of slowing output growth and accelerating inflation can be interpreted as presence of a positive rather than negative output gap. If so, stimulatory policies would likely add to inflationary pressures but unlikely propel faster output growth in manufacturing."

Key points

- New orders grew at weakest rate in current seven-month sequence.
- Employment rose for third time in four months.
- Input price inflation accelerated to twenty-seven month high.

Historical Overview



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Notes to Editors:

The HSBC Russia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to Russian Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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